

Message Text

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21

ACTION EUR-08

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AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

USDEL MTN GENEVA

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

:AMEMBASSY OTTAWA 1286

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

C O N F I D E N T I A L ROME 13714

LIMDIS

E.O. 11652: GDS

TAGS: EFIN, EEC, IT

SUBJ: EC MINISTERS OF FINANCE MEETING SEPTEMBER 22

PASS TREASURY AND FRB

REF: EC BRUSSELS 08424

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1. SUMMARY TREASURY DIRECTOR GENERAL PALUMBO DEBRIEFED ACTING TREASATT AND ECMIN SEPTEMBER 23 ON RESULTS OF EC FINANCE MINISTERS MEETING HELD SEPTEMBER 22 IN BRUSSELS. MAJOR DEVELOPMENT AT OTHERWISE QUIET MEETING WAS SNAKE FINANCE MINISTERS' INABILITY TO REACH AGREEMENT ON SWISS ASSOCIATION WITH EC SNAKE. DISCUSSION OF RECENT EC ANTI-RECESSION PROGRAMS MAJOR AGENDA ITEM. NO PROGRESS IN EC JOINT BORROWING REPORTED. FAILURE TO AGREE IN GENERAL ON EURATOM LOAN DISAPPOINTED GOI. PALUMBO ALSO EXPRESSED UNHAPPINESS WITH RECENT FRENCH EFFORTS TO REVIVE HIB FIVE INTERNATIONAL MONETARY CONFERENCE. END SUMMARY.

2. SWISS ASSOCIATION WITH EC SNAKE. AT SEPTEMBER 22 MEETING SNAKE FINANCE MINISTERS WERE INABLE TO REACH AGREEMENT ON SWISS ASSOCIATION WITH EC SNAKE. CONTENT OF THEIR DISCUSSION AND NEXT STEPS OUTLINED IN REFTEL WAS REPEATED BY PALIMBO. PALUMBO ALSO THOUGHT THAT AT NEXT MEETING OF SNAKE MINISTERS ISSUE WILL BE RESOLVED AND SWISS WILL JOIN SNAKE. OF THE THREE "TECHNICAL" ISSUES WITH WHICH THE CENTRAL BANK COMMITTEE WILL WRESTLE, PALUMBO FELT THAT ESTABLISHING THE AMOUNT AND TERMS FOR BILATERAL SWAP CREDITS BETWEEN PARTICIPATING CONTROL BANKS WOULD CONSUME MOST ENERGY. REGARDING EXPANSION OF THREE TECHNICAL ISSUES TO INCLUDE OTHER ITEMS OF INTEREST TO PRIMARILY ONE SNAKE MEMBER GOVERNMENT, I.E., FRANCE, PALUMBO WAS NONCOMMITAL. SINCE ITALY IS NOT A SNAKE MEMBER, PALUMBO WAS CAREFUL TO CHARACTERIZE HIS VIEWS AS THOSE OF AN OBERVER RATHER THAN AS A PARTICIPANT.

3. RECENT ANTI-RECESSION PROGRAMS. PALUMBO INDICATED THAT CONSIDERABLE TIME WAS DEVOTED TO DISCUSSION OF AN EC WORKING PAPER COMPARING THE RECENT ANTI-RECESSION PROGRAMS OF GERMANY, FRANCE, ITALY, HOLLAND, DENMARK AND, TO A LIMITED EXTENT, JAPAN AND THE UNITED STATES. ATTENTION WAS FOCUSED ON THE IMMEDIATE EFFECT THESE PROGRAMS WOULD JOINTLY HAVE ON THE OTHER EC MEMBERS AND TO ESTIMATE THE TEMPORAL IMPACT OF THE PROGRAMS ADOPTED. PALUMBO SAID IN AN ASIDE THAT THE GERMANS HAD TO DO A LOT OF TALKING TO EXPLAIN THEIR SEEMINGLY CONTRADICTORY FISCAL-STIMULUS AND BUDGET RESTRAINT PROGRAMS. HE SAID SOME OF THE GERMAN'S EC COLLEAGUES WERE CONVINCED OF THE LOGIC OF THE PROGRAMS, WHILE OTHERS SAW NONE. CONFIDENTIAL

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PALUMBO EMPHASIZED THE FACT THAT ALL OF THESE ANTI-RECESSION PROGRAMS WERE ANNOUNCED AND WILL BE, TO SOME DEGREE, IMPLEMENTED AT ROUGHLY THE SAME TIME. HE SAW THIS AS A SIGN OF EUROPEAN COOPERATION ON NATIONAL FISCAL AND MONETARY POLICIES. HE CITED AS ANOTHER EXAMPLE OF THIS TENDENCY THE FRENCH ACCEPTANCE OF MANY OF THE PROPOSED MODIFICATIONS TO THEIR RECENTLY-ANNOUNCED ANTI-RECESSION PROGRAM THAT WERE RAISED AT THE LAST EC FINANCE MINISTERS MEETING IN VENICE ON

AUGUST 24.

4. EC JOINT BORROWING. PALUMBO SAID NO PROGRESS HAD BEEN MADE ON THE EC JOINT BORROWING. THE PAUSE IN EFFORT ENFORCED BY THE EUROPEAN AUGUST AND RAMADAN HOLIDAYS EFFECTIVELY PREVENTED AND FURTHER DEVELOPMENTS. PALUMBO DID SAY THAT THE GENERAL FEELING IS THAT VENEZUELA AND IRAN ARE UNLIKELY TO PARTICIPATE IN THE EC JOINT BORROWING; VENEZUELA DUE TO OTHER DEMANDS ON ITS FUNDS AND IRAN BECAUSE IT WOULD RATHER COOPERATE WITH THE EUROPEAN COUNTRIES ON A BILATERAL BASIS WHERE IT CAN EXERT LEVERAGE ON TRADE AND INVESTMENT FRONTS. THIS LEAVES KUWAIT AND SAUDI ARABIA AS THE MAJOR POTENTIAL SOURCES OF FUNDS FOR THIS SCHEME.

5. RECENT FRENCH EFFORTS TO REVIVE THE BIGH FIVE INTERNATIONAL MONETARY CONFERENCE. PALUMBO SAID THAT HE AND HIS OTHER EC COLLEAGUES ARE AWARE OF LATEST FRENCH EFFORT TO REVIVE THE BIGH FIVER INTERNATIONAL MONETARY CONFERENCE. HE SAID ITALIAN VIEWS ON THE SUBJECT HAD BEEN VOICED OFTEN AND WERE CLEAR. THERE SEEMED TO BE NO NEED FOR THE CONFERENCE AND, IF THERE WERE SUCH A CONFERENCE, NO NEED TO RESTRICT ITS MEMBERSHIP IN SUCH AN ARBITRARY FASHION. THE UNITED STATES, PALUMBO ADDED, SHOULD TAKE AN ACTIVE PART IN DISSUADING FRENCH FROM CARRYING THROUGH ON PROPOSAL.

6. EURATOM LOAN. PALUMBO EXPRESSED HIS SOMEWHAT BITTER DISAPPOINTMENT THAT THE EC FINANCE COUNCIL HAD BEEN UNABLE TO GIVE ITS GENERAL APPROVAL TO EURATOM TO MAKE AN INTERNATIONAL BORROWING SO IT COULD BEGIN CONSTRUCTION OF NUCLEAR CENTERS IN EUROPE, WHICH PALUMBO SAID WOULD BE, OF COURSE, OF CONSIDERABLE DIRECT BENEFIT TO ITALY. HE SAID THAT ITALY CANNOT BENEFIT FROM THE ADVANTAGES OF NUCLEAR ENERGY WITHOUT ASSISTANCE IN REDUCING THE HEAVY LOAD IMPOSED UPON IT BY THE CONFIDENTIAL

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FINANCIAL REQUIREMENTS OF ESTABLISHING A NUCLEAR ENERGY SYSTEM. HE SAID THAT US SUPPORT IN THE ENERGY FIELD IS MOST IMPORTANT TO ITALY.

7. NEXT MEETING OF FINANCE MINISTERS. PALUMBO INDICATED THAT NEXT MEETING OF EC FINANCE COUNCIL WILL BE IN NOVEMBER, POSSIBLY NOVEMBER 10. HE SAID PARTICIPANTS FELT THAT A LITTLE MORE BREATHING SPACE WOULD BE USEFUL BETWEEN THE SEPTEMBER 22 MEETING AND THE NEXT MEETING TO ALLOW TIME TO ASSESS ECONOMIC AND FINANCIAL DEVELOPMENTS IN THE EC COUNTRIES. PALUMBO ALSO SAID THAT SOME EC STUDIES OF INTEREST TO THE PARTICIPANTS WILL NOT BE COMPLETED IN TIME TO ALLOW DISCUSSION AT THE PROPOSED OCTOBER 20 MEETING. VOLPE

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